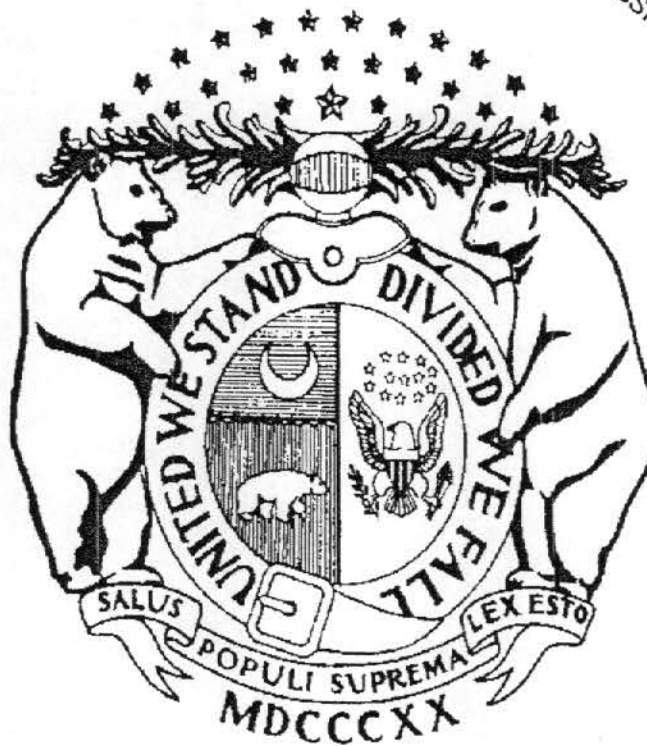


REPORT OF THE
FINANCIAL EXAMINATION OF
CHARITON COUNTY MUTUAL
INSURANCE COMPANY

AS OF
DECEMBER 31, 2008

FILED
OCT 07 2009
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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July 2, 2009
Mendon, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

CHARITON COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 404 Main Street (P.O. Box 26), Mendon, Missouri 64660, telephone number (660) 272-3322. This examination began on June 8, 2009, and concluded on June 12, 2009, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2003 and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

None.

HISTORY

General

The Company was originally organized on August 5, 1895, and was incorporated on October 10, 1895, as Farmers Mutual Fire Insurance Company of Chariton County. On March 30, 2000, the Company changed its name to Chariton County Mutual Insurance Company. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the last Thursday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time or can be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month. With the exception of the President, directors are compensated \$125 per each meeting attended. The President is compensated \$175 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
William Wilkey Salisbury, Missouri	Farmer	2008-2011
John Summers Triplett, Missouri	Farmer	2008-2011
Duane Leimkuehler Dalton, Missouri	Farmer	2006-2009

Richard Miller Keytesville, Missouri	Farmer	2006-2009
Ronnie McGilvray Mendon, Missouri	Farmer	2007-2010
L.E. Manson Dalton, Missouri	Retired	2007-2010
George Schupback (1) Keytesville, Missouri	Farmer	2006-2009
Vernon Vaughn Marceline, Missouri	Retired	2006-2009
Floyd Rodgers New Cambria, Missouri	Retired	2008-2011

(1) Director Schupback did not run for reelection in 2009. The membership elected Mark Ramsey to this Director position on March 26, 2009.

The Board of Directors elects for a term of one year the officers of the Company. The officers of the Company serving at December 31, 2008, were as follows:

L.E. Manson	President
Ronald McGilvray	Vice-President
Phillip Spencer	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. Conflict of interest statements were reviewed for the period under examination, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles nor the Bylaws were amended during the examination period. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an annual aggregate limit of \$3,000,000 and a \$2,500 loss deductible.

The Company's in-house agency purchases errors and omissions insurance for its agents with an aggregate limit of \$1,000,000 and a \$1,000 deductible. The Company's two independent agencies also purchased errors and omissions insurance with limits of liability of \$1,000,000 and deductibles of \$1,000 and \$2,500.

The Company carries property coverage on its home office and contents, as well as general liability and workers compensation insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees. The employee benefits package offered by the Company includes contributions to individual retirement accounts, profit sharing, and paid time off.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages.

The Company's policies are sold by one independent agency and one agent. The agent is also an agent of the in-house agency, Phillip W. Spencer Insurance Agency. The four agents of the Phillip W. Spencer Insurance Agency are also employees of the Company, and are compensated

Company in the form of set hourly or monthly wages. The commission paid to the independent agency is 15% for fire and allied lines and 17% for comprehensive personal liability and farm liability. The Company's agreements with its independent insurance agents do not require the agent to purchase errors and omissions insurance coverage. Although the Company obtains proof of such coverage when the agreements are signed, it does not obtain further proof of coverage when the policy has been renewed. It is recommended the Company amend its independent agency agreements to contain provisions requiring the agents to purchase errors and omissions insurance. In addition, the Company should actively monitor the status of the agent errors and omissions coverage, requiring its agents to provide evidence of policy renewals.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms as well as those provided by its reinsurer, Grinnell Mutual Reinsurance Company. The policies are continuous. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Company's agent and the Company Manager.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2008	\$3,704,176	\$453,566	\$966,602	\$549,113	\$121,489	\$209,525
2007	3,506,397	465,312	937,477	266,171	227,328	333,543
2006	3,118,356	410,816	831,102	433,180	156,813	242,913
2005	2,991,628	527,001	794,362	153,245	151,096	209,006
2004	2,621,756	366,135	765,684	256,716	182,872	221,652

At year-end 2008, 1,248 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct	\$966,602	\$937,477	\$831,102	\$794,362	\$765,684
Assumed	0	0	0	0	0
Ceded	<u>(155,114)</u>	<u>(153,306)</u>	<u>(136,801)</u>	<u>(118,753)</u>	<u>(106,077)</u>
Net	<u>\$ 811,488</u>	<u>\$784,171</u>	<u>\$694,301</u>	<u>\$675,609</u>	<u>\$659,607</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an aggregate excess reinsurance contract for fire, wind, and liability risks. The aggregate excess portion of the agreement covers fire and wind risks with a limit of \$1,000,000 per exposure. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2008 was \$422,836.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 20% ceding commission.

Under the facultative reinsurance portion of the agreement, the Company may cede risks to the reinsurer that exceeds the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The Company maintains its records on an accrual basis. The CPA firm of Harden, Cummins, Moss & Miller, LLC, performs the annual audit of the Company's financial statements and prepares the Company's annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2008

Bonds	\$ 70,964
Stocks	381,833
Real Estate	14,000
Cash on Deposit	2,910,052
Other Investments	225,180
Reinsurance Recoverable on Paid Losses	83,761
Interest Due and Accrued	13,673
Asset Write-Ins	4,713

Total Assets	<u><u>\$ 3,704,176</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Losses Unpaid	\$ 6,800
Ceded Reinsurance Premium Payable	13,186
Unearned Premium	405,932
Federal Income Tax Payable	1,517
Payroll Taxes Payable	26,131

Total Liabilities	\$ 453,566

Guaranty Fund	\$ 150,000
Other Surplus	3,100,610

Total Surplus	3,250,610

Total Liabilities and Surplus	\$ 3,704,176
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Assessments Earned	\$ 787,437
Other insurance Income	5,611
Net Losses & Loss Adjustment Expenses Incurred	(403,620)
Other Underwriting Expenses Incurred	(267,939)

Net Underwriting Income (Loss)	\$ 121,489
Investment Income	125,010
Other Income	663

Gross Profit (Loss)	\$ 247,162
Federal Income Tax	(37,637)

Net Income (Loss)	\$ 209,525
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	\$ 3,041,085
Net Income (Loss)	209,525

Policyholders' Surplus, December 31, 2008	\$ 3,250,610
	=====

NOTES TO FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Territory and Plan of Operations (Page 5)

It is recommended the Company amend its independent agency agreements to contain provisions requiring the agents to purchase errors and omissions insurance. In addition, the Company should actively monitor the status of the agent errors and omissions coverage, requiring its agents to provide evidence of policy renewals.

SUBSEQUENT EVENTS

None.

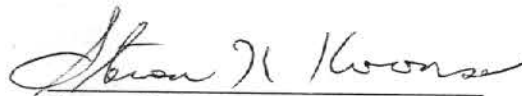
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Chariton County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Steven K. Koonse, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

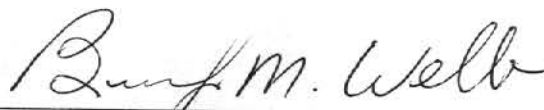


Steven K. Koonse, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 4th day of August, 2009.

My commission expires:

04/14/2012



Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Mark Nance, CPA, CFE
Audit Manager-Kansas City
Missouri DIFP

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
County of Clay

My Commission Expires 4/14/2012
Commission # 08464070